

INTERNAL REVENUE SERVICE  
McCaslin Industrial Park  
2 Cupenia Circle  
Monterey Park, CA 91755-7431

Department of the Treasury

Date: JUL 29 1999

Employer Identification Number:

DLN:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code.

FACTS:

The information submitted discloses that you were formed under [REDACTED]. As stated in the Articles of Incorporation, the purpose of the organization is "to promote the training of stock car drivers"...., "conducting stock car racing"...., and "promoting social interaction".

The activities of your organization, as stated in Form 1024, include the following:

- (1) Providing members with opportunities to participate in auto racing at local speedways;
- (2) Promoting the training of stock car drivers, and teaching safety procedures regarding the operation of motor vehicles;
- and (3) Exchanging racing information among the members.

The percentages and amounts of nonmember income received annually were as follows:

[REDACTED]: [REDACTED] (\$ [REDACTED])  
[REDACTED]: [REDACTED] (\$ [REDACTED])  
[REDACTED]: [REDACTED] (\$ [REDACTED])  
[REDACTED]: [REDACTED] (\$ [REDACTED])

The agreement between your organization and [REDACTED] for the use of the raceway, states that your organization is responsible for advertising [REDACTED], and that [REDACTED] controls the front gate admission prices, ticket sellers and other personnel required to operate the track, and the accounting of all receipts, which are used to offset the cost of renting the track.

ISSUE:

Does the organization qualify for exemption from Federal Income Tax as an organization described in Section 501(c)(7)?

LAW:

Section 501(c)(7) of the Internal Revenue Code provides for the exemption of social clubs which are organized for pleasure, recreation, and other similar nonprofitable purposes and substantially all of its activities are for these purposes, but does not apply if any part of its net earnings inures to the benefit of any private shareholder.

The Committee Reports for Public Law 94-568 states that it is intended that social club should be permitted to receive up to 35% of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status, and within this 35% amount, no more than 15% of the gross receipts should be derived from the use of a social club's facilities or services by the general public.

Section 1.501(c)(7)-1(b) of the regulations provides, in part, that a club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt from Federal income tax under section 501(a) of the Code.

Revenue Ruling 65-63, 1965-1 C.B. 240, states that "a nonprofit organization which, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and other nonprofitable purposes under Section 501(c)(7) of the Internal Revenue Code of 1954."

ANALYSIS:

All of the preceding Code sections, Income Tax Regulations and Revenue Ruling describe the criteria under which an organization may or may not be exempt as an organization described in section 501(c)(7) of the Internal Revenue Code.

In order to qualify for exemption as a social club described in Section 501(c)(7) of the Code, an organization is generally permitted to receive up to 35% of its gross receipts, including investment income, from sources outside its membership without losing its tax exempt status. Of the 35%, not more than 15% of its gross receipts may be derived from the use of the club facilities or services by the general public.

Your organization has received in excess of [redacted] of its gross receipts from the general public in each year since [redacted] which is well in excess of the above limits.



As evidenced in copies of [REDACTED] submitted to us, your organization has advertised your races several times during the year. Also, the rental agreement with the for-profit operator of the race track indicates that your races are conducted in the same manner as a commercial operation.

The solicitation of public patronage of activities, by advertising or otherwise, is prima facie evidence that the club is engaged in business activities and is not being operated predominately for pleasure, recreation, or social purposes, as required under section 501(c)(7).

CONCLUSION:

It is the position of the Internal Revenue Service, based upon the information submitted and for the reasons stated above, that your organization does not qualify for exemption from Federal Income Tax under Section 501(c)(7) of Internal Revenue Code.

Accordingly, you are required to file income tax returns on Form 1120, U. S. Corporate Income Tax Return, annually at your respective service center.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed agreement, Form 6018. Please note the instructions for signing on the reverse side of the form.

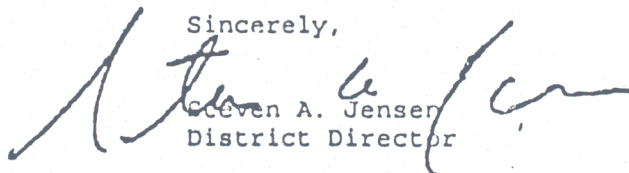
If you are not in agreement with this proposed determination, we recommend that you request a hearing with our office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law, and any other information in support of your position, as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the office of Regional Director of Appeals, or if you request, at a mutually convenient District Office.

If we do not hear from you within 30 days from the date of this letter, and you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination.

If you have any questions, please contact the person whose name appears on the heading of this letter.

We have sent a copy of this letter to your authorized Power of Attorney.

Sincerely,

  
Steven A. Jensen  
District Director

Form 6018  
(Rev. August 1983)

Department of the Treasury-Internal Revenue Service  
**Consent to Proposed Adverse Action**  
(All references are to the Internal Revenue Code)

Prepare In  
Duplicate

Case Number

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

Name and Address of Organization

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

**NATURE OF ADVERSE ACTION**

- ☒ Denial of exemption under IRC section 501(c)(7) as a social club
- ☐ Revocation of exemption, effective
- ☐ Modification of exempt status from section 501(c)( ) to 501(c)( ), effective
- ☐ Classification as a private foundation (section 509(a)), effective
- ☐ Classification as a non-operating foundation (section 4942(j)(3)), effective
- ☐ Classification as an organization described in section 509(a)( ), effective
- ☐ Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization

Signature and Title

Date

Signature and Title

Date